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TAGS: [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [BL](#)  
SUBJECT: BOLIVIA: IMF, IDB, AND WORLD BANK UPDATES

Classified By: Ambassador David N. Greenlee for reasons 1.4d and b.

11. (U) This is an action request. Please see Paragraph 6.

12. (C) Summary: Please see paragraph 6 for action request. The World Bank Andean Director met with the Ambassador to solicit support from the U.S. government for the approval of its interim Bolivian strategy during the next World Bank board meeting on July 20. The Director told both the Ambassador and President Morales in separate meetings that board concern about Bolivia's hydrocarbons nationalization could impact funding. The IDB Resident Representative told the Ambassador that USD 23 million of funds for Bolivia would soon go before the IDB board to approve a reallocation to Plan Pro Pais, billed by the GOB as emergency job creation, and viewed by the Embassy and the resrep as an inappropriate use of funds. The IMF completed an Article 4 assessment of Bolivia's economy on May 19, concluding that the macroeconomic situation would be positive through the end of 2006, this year's deficit would be low, and that Bolivia would not seek an IMF agreement in the short-term. End summary.

#### World Bank Seeks U.S. Support of Interim Strategy

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13. (SBU) World Bank Andean Director Marcelo Hiugale told the Ambassador on May 9 that Italian and Spanish World Bank board members had requested a board briefing regarding Bolivia's hydrocarbons nationalization on May 22. Hiugale feared that negative reactions to Bolivia's natural resource policy and concerns that gas and oil revenues could be swallowed up by corruption might delay the approval of its interim strategy, which they planned to present to the board on July 20. Without an interim strategy in place, Hiugale explained, the World Bank would have no mandate to operate in Bolivia and no funding for providing technical assistance for the next two years. Hiugale urged the United States to support its interim strategy before the board.

14. (SBU) Hiugale said that he had told President Morales that

World Bank board members were concerned about the GOB's hydrocarbons policies and explained that such concern could impact funding. Hiugale was surprised that the GOB seemed to understand the ramifications of its actions and had even gamed out four different scenarios about possible donor reactions. Hiugale offered to provide the GOB with a technical team to model growth and budget figures assuming zero foreign investment during the next few years to demonstrate the negative impact that GOB policies could have on the economy. Morales responded noncommittally. Hiugale told the Ambassador that the World Bank would not be providing budget support to Bolivia this year due to its unclear macroeconomic framework and its lack of an IMF agreement.

#### Inter-American Development Bank

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¶5. (C) Inter-American Development Bank (IDB) Resident Representative Joel Branski told the Ambassador on May 4 that the IDB had more than USD 400 million of previously allocated Bolivia funds that had to be reprogrammed. He explained that USD 43 million would be reallocated in an upcoming IDB board meeting. USD 20 million would be allocated to emergency flood relief, while USD 23 million would go to Plan Pro Pais for infrastructure and emergency job creation in locations such as El Alto, where Bolivia stands to lose up to 100,000 manufacturing jobs upon the expiration of APTDEA trade benefits at the end of the year. The Ambassador expressed concern, with which Branski agreed, that the funds would be used by the GOB to subsidize poor economic policy, particularly the GOB decision not to pursue a trade agreement with the U.S. and the resulting job losses for Bolivia. Branski explained that the reprogramming decision would be up for approval through a fast track procedure, but that the process could be delayed if any board member raised a

question or objection to the project.

¶6. (U) Action request: As discussed with EB, we recommend that State work with Treasury to delay the approval of the funds for Pro Pais. We have raised the issue with Brazilian Embassy representatives, who plan to have their IDB representative discuss strategies with the U.S. IDB representative. The Brazilians concurred that blocking the Pro Pais plan would send an appropriate signal to the GOB.

#### International Monetary Fund

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¶7. (SBU) An IMF Article 4 mission concluded its assessment of Bolivia's economic situation on May 19. IMF representatives told us on May 18 that predictions about Bolivia's economy would be difficult to make, because of the uncertainty associated with the hydrocarbons and other sectors. They would assume that hydrocarbons production and export levels would remain steady in the medium term based on the assumption that the GOB will be able to work out solutions with the companies for compensation and other details following the semi-nationalization. Because the GOB was flush with resources due to high gas and mineral export prices and increased hydrocarbons taxes, it seemed that the macroeconomic situation would be in good shape until at least the end of the year and that the overall deficit would be near zero, they said. (Note: This low deficit forecast does not take into account contingent expenditures that are not yet part of the budget, and also assumes, perhaps erroneously, that the GOB will not increase spending as a result of the additional tax revenue. End note.) The mission pointed out mid-term risks, including the explosive land reform issue and the unknown performance of the new Central Bank President Raul Garron. They said that the banking system and deposits were currently stable, but rumors that the GOB would implement financial controls, which the GOB has denied, could spur a run. They concluded that an IMF program with Bolivia is unlikely in the short term, as neither Bolivia nor the Fund wished to pursue one.

GREENLEE